

Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended.

Unit Name	Lebanon Township	County	CLINTON	Type	TOWNSHIP	MuniCode	19-1-100
Opinion Date-Use Calendar	Aug 5, 2008	Audit Submitted-Use Calendar	Aug 21, 2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 139,921.00
General Fund Expenditure:	\$ 111,407.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 199,262.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Aaron	Last Name	Stevens	Ten Digit License Number	1101024055				
CPA Street Address	3511 Coolidge Road, Suite 10	City	East Lansing	State	MI	Zip Code	48823	Telephone	+1 (517) 351-6836
CPA Firm Name	Abraham & Gaffney, P.C.	Unit's Street Address	11200 Kinley Road	City	Fowler	LU Zip	48835		

**Township of Lebanon
Clinton County, Michigan**

FINANCIAL STATEMENTS

March 31, 2008

Township of Lebanon
Clinton County, Michigan
March 31, 2008
BOARD OF TRUSTEES

Gregory Armbrustmacher	Supervisor
Steven Thelen	Clerk
Michael Klein	Treasurer
David Piggott	Trustee
Gene Sanborn	Trustee

Township of Lebanon
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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Lebanon
Clinton County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Township of Lebanon, Michigan as of and for the year ended March 31, 2008, which collective comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township of Lebanon's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Township of Lebanon as of March 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information as identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Township has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 5, 2008

BASIC FINANCIAL STATEMENTS

Township of Lebanon
STATEMENT OF NET ASSETS
March 31, 2008

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 191,445
Investments	3,000
Receivables	3,227
Prepays	<u>1,750</u>
Total current assets	199,422
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>3,840</u>
TOTAL ASSETS	203,262
LIABILITIES	
Accounts payable	<u>160</u>
NET ASSETS	
Invested in capital assets	3,840
Unrestricted	<u>199,262</u>
TOTAL NET ASSETS	<u><u>\$ 203,102</u></u>

See accompanying notes to financial statements.

Township of Lebanon

STATEMENT OF ACTIVITIES

Year Ended March 31, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
General government	\$ 52,389	\$ 13,017	\$ -	\$ (39,372)
Public safety	6,800	1,600	-	(5,200)
Public works	52,388	-	2,529	(49,859)
Health and welfare	1,750	1,225	-	(525)
Total governmental activities	<u>\$ 113,327</u>	<u>\$ 15,842</u>	<u>\$ 2,529</u>	(94,956)
General revenues:				
Property taxes				71,446
State shared revenue				45,620
Investment earnings				3,719
Other				<u>765</u>
Total general revenues				<u>121,550</u>
Change in net assets				26,594
Net assets, beginning of the year				<u>176,508</u>
Net assets, end of the year				<u>\$ 203,102</u>

See accompanying notes to financial statements.

Township of Lebanon
GOVERNMENTAL FUND BALANCE SHEET
March 31, 2008

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 191,445
Investments	3,000
Taxes receivable	3,227
Prepays	<u>1,750</u>
TOTAL ASSETS	<u><u>\$ 199,422</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 160
FUND BALANCE	
Reserved for prepaids	1,750
Unreserved	
Designated for cemetery care	3,000
Undesignated	<u>194,512</u>
TOTAL FUND BALANCE	<u>199,262</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 199,422</u></u>

See accompanying notes to financial statements.

Township of Lebanon

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2008

Total fund balance - governmental fund \$ 199,262

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 9,600	
Accumulated depreciation is	<u>(5,760)</u>	
Capital assets, net		<u>3,840</u>
Net assets of governmental activities		<u><u>\$ 203,102</u></u>

See accompanying notes to financial statements.

Township of Lebanon

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended March 31, 2008

	<u>General</u>
REVENUES	
Taxes	\$ 77,483
Intergovernmental	48,149
Charges for services	9,805
Interest and rents	3,719
Other	<u>765</u>
TOTAL REVENUES	139,921
EXPENDITURES	
Current	
General government	40,441
Public safety	6,800
Public works	52,388
Health and welfare	1,750
Other	<u>10,028</u>
TOTAL EXPENDITURES	<u>111,407</u>
NET CHANGE IN FUND BALANCE	28,514
Fund balance, beginning of year	<u>170,748</u>
Fund balance, end of year	<u><u>\$ 199,262</u></u>

See accompanying notes to financial statements.

Township of Lebanon

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2008

Net change in fund balance - governmental fund	\$	28,514
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense		<u>(1,920)</u>
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Change in net assets of governmental activities	\$	<u>26,594</u>
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See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lebanon Township, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Clinton County. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees, and provides services to its residents in many areas including fire protection, roads, and ambulance service.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 30); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Township of Lebanon. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of Lebanon Township contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements).

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's only governmental fund. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Township has elected not to follow subsequent private-sector guidance.

5. Budgets and Budgetary Accounting

The General Fund budget shown as required supplementary information to the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a functional level through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between accounts within the fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted and amended by the Township Board during the year. The amendments to the originally adopted budget were not material.

6. Cash, Cash Equivalents, and Investments

Cash consists of money market checking accounts. Cash equivalents include certificates of deposit with an original maturity of less than 90 days from the date of purchase. Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. Cash, cash equivalents, and investments are stated at fair value.

Township of Lebanon
NOTES TO FINANCIAL STATEMENTS
March 31, 2008

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Property Tax

Lebanon Township bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Property taxes are levied twice per year. A summer tax is levied on July 1 and a winter tax is levied on December 1. The tax levies are due September 14 and February 14, respectively. All taxes not paid by their due dates are deemed delinquent. Delinquent real property taxes are turned over to the Clinton County Treasurer on March 1 of the year following the levy. The Clinton County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service and additional amounts for roads and bridges. For the year ended March 31, 2008, the Township levied 0.9768 mills per \$1,000 of assessed valuation for general governmental services and 2.0000 mills for roads and bridges. The total taxable value for the 2007 levy for property within the Township was \$22,047,325.

8. Capital Assets

Capital assets consist of equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation for the equipment is computed using the straight-line method over 5 years.

9. Comparative Data

Comparative data for the year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2008, the carrying amount of the Township's deposits was \$194,445 and the bank balance was \$194,445.

Deposits of the Township are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Township. As of March 31, 2008, the Township accounts were insured by the FDIC for \$176,961 and the amount of \$17,484 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2008, the Township did not have any investments that would be subject to rating.

Interest rate risk

The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio in a manner to attain a market average rate of return. The core of investments is limited to relatively low risk securities

Concentration of credit risk

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio to prevent over concentration of assets in a specific issuer, or business sector.

Township of Lebanon
NOTES TO FINANCIAL STATEMENTS
March 31, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Custodial credit risk

The Township will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by limiting investments to the types of securities listed in the Township's investment policy, and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the Township will do business in accordance with the Township's investment policy.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2008 was as follows:

Governmental activities

	<u>Balance</u> <u>April 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>March 31, 2008</u>
Capital assets being depreciated:				
Equipment	\$ 9,600	\$ -	\$ -	\$ 9,600
Less accumulated depreciation				
Equipment	(3,840)	(1,920)	-	(5,760)
Net capital assets - governmental activities	<u>\$(5,760)</u>	<u>\$(1,920)</u>	<u>\$ -0-</u>	<u>\$ 3,840</u>

Depreciation expense was charged to the general government activity on the statement of activities.

NOTE D: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund equity which the Township has set aside for specific purposes.

The following is the fund balance reserve as of March 31, 2008:

Reserved for prepaids	\$ <u>1,750</u>
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The following is the fund balance designation as of March 31, 2008:

Designated for cemetery care	\$ <u>3,000</u>
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NOTE E: PENSION PLAN

Lebanon Township is the sponsor of a defined contribution retirement plan for the sole benefit of its employees. The plan was established by the Township Board and the Board reserves the right to amend and administer all provisions. Plan assets are invested in separate employee accounts with John Hancock under the provisions of Section 401(a) of the Internal Revenue Code.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE E: PENSION PLAN - CONTINUED

A defined contribution pension plan provides pension benefits in return for services rendered, an individual account for each participant, and specifies how contributions to the individual's account are to be determined. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed, returns earned on the investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

The plan requires the employer to contribute fifteen percent of the participating employees' gross wages. The current year covered and total payroll was \$27,100. Employer contributions for the year ended March 31, 2008 were \$4,065. Fees associated with administering the plan were \$484.

NOTE F: RISK MANAGEMENT

The Township participates in a pool, the Michigan Township Participating Plan, with other municipalities for various risks of loss including employer's liability, wrongful acts liability, governmental medical liability, employee benefits liability, cemetery professional liability, and auto liability. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

The Township also participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities to minimize risk of loss due to workers' compensation claims. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedule, the Township's budgeted expenditures in the General Fund have been shown at the activity level. The approved budgets of the Township have been adopted at the activity level for the General Fund.

During the year ended March 31, 2008, the Township incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General government			
Assessor	\$ 5,300	\$ 5,632	\$ 332
Health and welfare			
Ambulance	-	1,750	1,750
Other			
Payroll taxes	-	1,905	1,905
Insurance and bonds	2,200	3,574	1,374
Pension	4,500	4,549	49

REQUIRED SUPPLEMENTARY INFORMATION

Township of Lebanon

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 71,200	\$ 71,200	\$ 77,483	\$ 6,283
Intergovernmental	45,000	45,000	48,149	3,149
Charges for services	-	-	9,805	9,805
Interest and rents	-	-	3,719	3,719
Other	-	-	765	765
TOTAL REVENUES	116,200	116,200	139,921	23,721
EXPENDITURES				
General government				
Legislative	2,600	2,600	2,309	291
Supervisor	5,600	5,600	5,558	42
Clerk	5,900	5,900	5,565	335
Board of review	450	450	450	-0-
Treasurer	7,700	7,700	7,597	103
Assessor	5,300	5,300	5,632	(332)
Elections	1,000	1,000	736	264
Hall and grounds	5,000	5,000	1,094	3,906
Other	14,400	14,400	11,500	2,900
Total general government	47,950	47,950	40,441	7,509
Public safety				
Fire protection	8,500	8,500	6,800	1,700
Public works				
Highways and streets	75,050	75,050	50,211	24,839
Drains	3,000	3,000	2,177	823
Total public works	78,050	78,050	52,388	25,662
Health and welfare				
Ambulance	-	-	1,750	(1,750)
Other				
Payroll taxes	-	-	1,905	(1,905)
Insurance and bonds	2,200	2,200	3,574	(1,374)
Pension	4,500	4,500	4,549	(49)
Total other	6,700	6,700	10,028	(3,328)
TOTAL EXPENDITURES	141,200	141,200	111,407	29,793
NET CHANGE IN FUND BALANCE	(25,000)	(25,000)	28,514	53,514
Fund balance, beginning of year	170,748	170,748	170,748	-0-
Fund balance, end of year	\$ 145,748	\$ 145,748	\$ 199,262	\$ 53,514

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS

Members of the Township Board
Township of Lebanon
Clinton County, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Township of Lebanon, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements and have issued our report thereon dated August 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Lebanon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be a significant deficiencies in internal control over financial reporting:

SEGREGATION OF DUTIES

During our consideration of the Township's internal controls and our assessment of fraud risk, we noted that the Township does not have an adequate overall internal control design. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.). Currently, the same individual accepts cash receipts, records cash receipts, prepares bank deposits, makes bank deposits, and prepares the bank reconciliation. This issue was noted and reported in our previous audit comments.

While this is a common occurrence in smaller organizations due to the limited number of employees, the Township Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

SEGREGATION OF DUTIES - CONTINUED

We recommend that the Township review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend the Township Board provide a greater review and supervision of employee functions and procedures.

APPROPRIATE REVIEW OF GENERAL LEDGER REPORTING

During our consideration of the Township's internal controls, we noted that although the Township appropriately adopted an annual budget for the General Fund, it does not appear as though the budgets are periodically compared with actual results, such as through a monthly report that would be approved by the Board and documented in the minutes of the Board meetings. In order to remain in compliance with the Uniform Budgeting and Accounting Act (Act 2 of 1968, Budget Sections as amended) and for the Township's budget to be a meaningful document and useful management tool, management should prepare periodic interim budget vs. actual financial statements for the Township Board to review. This issue was noted and reported in our previous audit comments.

We recommend that the Township management provide the Board periodic financial reports. We also recommend that the Board review such financial reports preferably on a monthly basis, but at least on a quarterly basis. The financial reports should be generated directly from the Township's general ledger and include fiscal year-to-date revenues and expenditures compared to their budgeted amounts.

PREPARATION OF FINANCIAL STATEMENTS

Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. The annual audited financial statements for the year ended March 31, 2008 for the Township required significant audit adjustments.

The staff at the Township of Lebanon understands substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process.

We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

MANAGEMENT DISCUSSION AND ANALYSIS

The Township has not presented a management's discussion and analysis. The Governmental Accounting Standards Board (GASB) has determined that it is necessary for governmental entities to supplement their basic financial statements with a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year.

It has historically been common for many small governments to omit a MD&A. As a result, management's understanding and view of the financial statements are not readily available for a reader's consumption. Because the Township has not presented a management's discussion and analysis, an explanatory paragraph has been added to the Independent Auditor's Report on the Township's financial statements. We are communicating these circumstances as required by professional standards.

We recommend the Township Board consider the benefits of preparing a MD&A as well as the related costs to do so.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township of Lebanon's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily identify all deficiencies in internal control that might be considered to be material weaknesses. We believe that the following significant deficiency to be a material weakness in internal controls over financial reporting.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Journal entries for the proper recognition of various aspects throughout the general ledger were proposed by the auditors. While individually the entries were not material to the financial statements, when aggregated, the effect was material. These misstatements were not detected by the Township's internal control over financial reporting. These entries included audit adjustments to adjust the cash basis records to modified accrual basis in accordance with generally accepted accounting principles.

Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls. Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Township's internal controls.

We recommend that the Township take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, standards, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance and an other matter.

UNFAVORABLE BUDGET VARIANCES

During our review of the Township's compliance with the budgeting act, we noted that expenditures exceeded the amounts appropriated for five (5) activities in the General Fund.

The Uniform Budgeting and Accounting Act requires that the Township adopt a budget for the General Fund and all Special Revenue Funds and prohibits budgeting for a deficit fund balance. It also requires the Township to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

The Township's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund. The Township adopted the budget for the General Fund at the activity level. Having unfavorable budget variances as described above, the Township is not in compliance with Public Act 621 of 1978, as amended.

We recommend the Township monitor expenditures against adopted budgets in all applicable funds and make appropriated budget adjustments as needed.

ADDITIONAL ADMINISTRATIVE POLICIES AND PROCEDURES

Based on our discussions with management, we noted that the Township has not formally adopted written procedures and policies for certain areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. This issue was noted in our previous audit comments. Specifically, we recommend that the Township develop, formally adopt, and implement written procedures and policies in the following areas:

ADDITIONAL ADMINISTRATIVE POLICIES AND PROCEDURES - CONTINUED

- a. Disaster recovery plan - We recommend the Township adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Township and detail how the Township would continue to operate in the absence of those critical areas of operation.
- b. Conflict of interest policy - A conflict of interest policy will clarify the Township's position on ethical behavior and communicate that position to employees and Board members. We recommend the Township develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and Board members. The Township should also obtain conflict of interest disclosure statements from its employees and Board members.

This report is intended solely for the information and use of management and Members of the Township Board of the Township of Lebanon, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

August 5, 2008